

WASHINGTON (MarketWatch) — House lawmakers clashed Thursday over how best to reform government-seized housing giants Fannie Mae and Freddie Mac, as lawmakers seek to protect a mainstay of the housing market: 30-year mortgages.

"The housing market is in a very fragile state," said Rep. Chris Van Hollen, a Maryland Democrat, during a House Budget Committee hearing on the housing market.

Fannie (OTC:FNMA) and Freddie (OTC:FMCC) became saddled with toxic mortgages and were nationalized at the peak of the 2008 financial crisis to avoid losses and stem the credit contagion.

As of October, the two companies have cost taxpayers roughly \$151 billion in taxpayer funds, used to cover their losses, with more losses expected on the horizon. The Congressional Budget Office estimated in March new guarantees that Fannie and Freddie will make between 2012 and 2021 will cost taxpayers an additional \$42 billion.

Van Hollen took issue with a bill advanced by Republican Rep. Jeb Hensarling, which the Democrat says would limit the availability of the long-term financing of the 30-year-fixed rate mortgage for a wide-range of credit worthy borrowers. Hensarling wants to quicken the pace of sales of Fannie and Freddie's \$1.4 trillion portfolio.

"I am very concerned that those proposals, which would create fire sales of Fannie and Freddie portfolios, would only further depress loans values and reduce the returns to taxpayers of the current portfolios at Fannie Mae regardless of what cost accounting we use," Hollen said. "Those concerns are shared by many others."

Sarah Wartell, executive vice president of the Center for American Progress Action Fund, told the panel that in a fully privatized housing market, the 30-year fixed rate mortgage would not be available at a price that most middle-class American families will be able to afford.

“Those mortgages available privately are for very high-quality borrowers with very high down-payments. Most Americans don’t have those options,” Wartell said.

American Enterprise Institute fellow Alex Pollock said a 30-year mortgage would continue to exist in a privatized mortgage market.

“We have to go to a five-year transition, the end point of which is we move to a largely private mortgage market where the prices are market prices. I have no doubt there would be a 30-year fixed mortgage,” Pollock said.

California Republican **John Campbell**, who with Michigan Democrat Gary Peters has introduced a plan to set up as many as 15 or 20 firms that would buy loans, then package and sell them with explicit government guarantees, isn’t as sure.

“That no doubt is not shared by anyone in the market place who might actually fund those 30 year mortgages,” Campbell said.

Campbell told MarketWatch that he and Peters have not yet received any other backers for their bill. However, **Campbell** added that he expects support, and he has meetings set up with a number of members to discuss his bill.

“There are Republicans who will support it and there are Republicans who will not support it,” Campbell said. “People are not going to sign up easily because this is complex stuff.”